

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02
SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 L-03 H-02
PA-02 PRS-01 SSO-00 NSCE-00 USIE-00 INRE-00 /095 W
-----121236Z 016974 /12

O R 121216Z JAN 77 ZFF (TRSY)
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 9380
INFO AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

UNCLAS SECTION 01 OF 02 LONDON 00512

DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: PARLIAMENTARY DEBATE ON THE CHANCELLOR'S
STERLING BALANCE STATEMENT

REF: LONDON 0450

1. AFTER THE CHANCELLOR MADE HIS STATEMENT (REFTEL), CON-
SERVATIVE SHADOW CHANCELLOR SIR GEOFFREY HOWE,
POSED A NUMBER OF TECHNICAL QUESTIONS: RATE OF INTER-
EST ON BONDS; IS THERE A MAINTENANCE OF VALUE UNDERTAKING
SHOULD STERLING DECLINE; DOES NOT THIS UNDERLINE NEED FOR
COMPETENT ECONOMIC MANAGMENT UNDER IMF SUPERVISION, WHERE
LOSS OF CONFIDENCE COULD COST DEARLY; DOES ANNOUNCEMENT
MEAN END OF NATIONALIZED INDUSTRY AND PUBLIC SECTOR BORROW
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ING;NEED NOT TO REPEAT FOLLY OF 1974-76 WHEN CHANCELLOR
REJOICED AT SHORT-TERM CAPITAL INFLOWS.

2. CHANCELLOR REPLIED RATE OF INTEREST ON FOREIGN CUR-
RENCY BONDS WILL BE ROUGHLY HALF RATE ON EXISTING STERLING
DEPOSITS; RATE OF INTEREST ON STANDBY WILL BE ABOUT 5 PER-

CENT, 9 PERCENT LESS THAN THE RATE OF INTEREST ON EXISTING HOLDINGS. IN TERMS OF INTEREST PAYMENTS AS WELL AS IN TERMS OF STABILITY, REPLACING VOLATILE SHORT-TERM BORROWINGS BY LONGER TERM BORROWINGS, THIS IS A GOOD DEAL FOR THE COUNTRY. HEALEY SAID SIR GEOFFREY WAS RIGHT IN SAYING THIS IS AN IMPROVEMENT OVER THE 1968 AGREEMENT BECAUSE THERE ARE NO GUARANTEES TO EXISTING STERLING HOLDERS.

3. HEALEY REMARKED IT WAS THE CONSERVATIVE GOVERNMENT IN 1973 WHICH STARTED THE POLICY OF BORROWING ABROAD BY NATIONALIZED INDUSTRIES AND THERE IS NO REASON TO GIVE UP THIS TYPE OF BORROWING IF IT PROVES SUITABLE FOR UK'S PURPOSES.

4. SIR GEOFFREY ASKED IF THE ISSUE OF FOREIGN CURRENCY BONDS BY THE GOVERNMENT MEANT THE GOVERNMENT WOULD UNDERWRITE THE FOREIGN CURRENCY VALUE OF PRESENT OFFICIAL STERLING BALANCES. HEALEY REPLIED IN A FLOATING CURRENCY REGIME IT IS NOT OPEN FOR ANY COUNTRY TO GUARANTEE TO PAY THE VALUE OF ANY BOND HOWEVER DENOMINATED IN TERMS OF OTHER CURRENCIES OR EVEN ITS OWN.

5. JOHN PARDOE, LIBERAL PARTY ECONOMIC SPOKESMAN, WELCOMED THE ARRANGEMENT AS A SIGN THAT AT LAST THE BRITISH GOVERNMENT INTENDED TO END THE RESERVE ROLE OF STERLING. HE ASKED SEVERAL TECHNICAL QUESTIONS ABOUT HOW IT WOULD BE CARRIED OUT, WHAT IS MEDIUM TERM, AND WOULD FOREIGN CURRENCY BONDS BE ABLE TO BE LIQUIDATED IN CASE OF NEED. HEALEY REPLIED HE WOULD GIVE DETAILS AT A LATER DATE. THE RATE OF INTEREST WILL BE MARKET RELATED TO THE INTEREST NOW RELATED TO CURRENCIES ON WHICH THE BORROWINGS ARE ISSUED.
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MOST WOULD BE ISSUED IN DOLLARS, SOME IN OTHER CURRENCIES.

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PA-02 PRS-01 SSO-00 NSCE-00 USIE-00 INRE-00 /095 W

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TO TREASURY DEPT WASHDC IMMEDIATE
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AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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THE TERM OF THE BONDS IS ONE OF THE DETAILS NOW UNDER DISCUSSION.

6. IAN WRIGGLESWORTH (LABOUR) AND ENOCH POWELL (UNITED ULSTER PARTY) ASKED HEALEY HOW HE COULD PREVENT A RUN UP IN OFFICIAL BALANCES AND TO AVOID AN INCREASE IN PRIVATE HOLDINGS OF BRITISH GOVERNMENT DEBT.

7. HEALEY REPLIED THAT THE GOVERNMENT IS CONCERNED AS ARE ALL PARTICIPANTS IN THE FACILITY THAT THERE SHALL NOT BE A SHIFT OF OFFICIAL HOLDINGS INTO PRIVATE HOLDINGS UNDER SOME SORT OF DISGUISE. HE SHALL SEEK TO AVOID A BUILD UP IN PRIVATE HOLDINGS. OTHER COUNTRIES HAVE HAD SOME SUCCESS IN PREVENTING A BUILD UP OF THESE TYPES OF BALANCES. NONE OF THEM HAVE HAD FULL SUCCESS, THAT IS WHY HEALEY CANNOT
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GUARANTEE FULL SUCCESS. THE IMPORTANT THING IS THAT WE UNDERTAKE NOT TO USE ANY BUILD UP IN PRIVATE HOLDINGS WHICH MAY TAKE PLACE TO FINANCE OUR CURRENT ACCOUNT DEFICIT.

8. DOUGLAS JAY (LABOUR) ASKED WHY FRANCE HAD REMAINED OUTSIDE THE AGREEMENT. HEALEY REPLIED IT IS POSSIBLE THAT FRANCE AND ITALY MIGHT JOIN AT A LATER STAGE BUT THEY HAVE SOME ECONOMIC PROBLEMS SIMILAR TO THE UK.

9. NIGEL LAWSON (CONSERVATIVE) ASKED IF BY ISSUING DOLLAR BONDS, THE UK WAS NOT GUARANTEEING HOLDERS AGAINST ANY SUBSEQUENT DEPRECIATION OF THE POUND AGAINST THE DOLLAR. HEALEY REPLIED THAT IF A MAN BORROWS DOLLARS HE IS NOT

GUARANTEED STERLING IN DOLLARS, HE HAS A DOLLAR BOND.
COUNTRIES WHICH HOLD STERLING BALANCES WILL CALCULATE
CAREFULLY WHETHER STERLING IS LIKELY TO MOVE UPWARDS
AGAINST THE DOLLAR AS IT HAS IN RECENT MONTHS OR DOWNWARDS
AS IT DID IN MONTHS BEFORE THAT.

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*** Current Classification *** UNCLASSIFIED

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Disposition Approved on Date:
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Disposition Comment:
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